https://www.financial-planning.com/list/ask-an-advisor-positioning-investment-management-in-a-financial-planning-world

Ask an Advisor: Positioning investment management in a financial planning world

By Rob Burgess
September 30, 2024 5:17 PM

Welcome back to "Ask an Advisor," the advice column in which real financial professionals answer questions from real people. The topic can be anything in the world of finance, from retirement to taxes to wealth management — or even advice on advising.

Tim Dyer has been a financial advisor since 1998. But, he still has questions about the best way to present his investment management services in a world increasingly dominated by financial planning.

For help, he turned to his fellow advisors. Here's what he wrote:

Dear advisors,

With all the focus on financial planning recently, how do you position your investment management capabilities to current and prospective clients?

Tim Dyer
Dyer Wealth Management
La Jolla, California

In response, advisors suggested emphasizing that investment management and financial planning work hand in hand, following up on investment management suggestions over a long period, focusing investment changes on life events and not the noise of the market, and more.

-

Investment management and financial planning work hand in hand

Tom Balcom, CFP and founder of 1650 Wealth Management in Lauderdale-by-the-Sea, Florida

Investment management has a direct impact on financial planning. If the client is seeking a more conservative investment approach, the client's cash flow projections should reflect that particular stance. You could make the argument on the flip side as well since higher cash flow requirements may dictate a more aggressive portfolio positioning. Both investment management and financial planning work hand in hand.

-

We can't do one without also doing the other
Ron Strobel, CFP and founder of Retire Sensibly in Meridian, Idaho

Our focus is always on the relationship between planning and investing. We can't do one without also doing the other.

The client's plan dictates their investment strategy. The goals and timelines established in the planning process tell us exactly how their investment strategy should be designed and make it easy for clients to understand why they are investing in a certain way. We establish goals and other planning-related tasks during the initial meetings with prospective clients and then explain to them in a written proposal how we would design a portfolio based on those goals. We do not recommend any particular investments until they become a client, but that initial process makes it easier for us to work with the client should they decide to hire us because we already have a written outline of their financial plan and it makes it easy for them to understand how we are going to help them reach their goals.

For ongoing clients, it's simply a matter of reviewing the plan and making any adjustments to their investments as dictated by changes in the plan or the investing landscape. I view it as similar to how a doctor prescribes treatments. We are prescribing the investments based on the things we discover during the planning process.

-

Offering only one is an incomplete solution
Jeremy Bohne, founder of Paceline Wealth Management in Boston

Financial planning has taken the spotlight recently as more people begin to use it, and secondarily because passive investing is more popular than it was a decade or two ago.

That being said, offering only one is an incomplete solution to helping clients achieve their goals, and each requires personalization for it to be both relevant and effective.

Utilizing index- or rules-based ETFs, individual stocks and actively managed funds
Andrew Herzog, wealth advisor at The Watchman Group in Plano, Texas

Our investment management strategy has three components: index- or rules-based ETFs, individual stocks and actively managed funds. We utilize all three to manage costs and risks.

Index- or rules-based ETFs are typically low-cost, helping to keep overall expenses down. This can balance out the higher fees typically associated with

actively managed funds. Moreover, individual stocks do not have expense ratios or trading fees, thereby keeping portfolio costs even lower. Index funds offer more stable, broad-based growth, individual stocks may provide higher returns but with higher risk, and actively managed funds can help manage downside risk by actively responding to market changes. ETFs and stocks allow for greater tax management, too.

-

Delays are costly
Nicholas Bunio, CFP at Retirement Wealth Advisors in Downingtown, Pennsylvania

I don't push my investment management too much. The client's plan will include a basic recommended allocation, plus analyzing what they have now, which often shows significant gaps with their current advisor or DIY plan.

Over time, clients realize that this hurts them in the long run. And clients do forget about what they need to do (if they are DIY). With constant follow-ups and meetings, over time, clients appreciate this. I stay on top of what needs to be done. Clients then realize (or just by being blunt about it) that if I managed the investments, their changes would have been made even faster. Delays are costly.

Plus, past performance is never indicative of future success. So showing a higher ROR doesn't work. After all, what could work today, may not tomorrow. But for sure, lower fees, staying on top of the investments, buying and selling when needed and giving that 'personalized' touch with their plan and investments, clients see that, understand that and appreciate that more. Bringing over their investments becomes easier.

On a side note, I am very upfront about what planning is versus investment management. If a client wants specific investment recommendations, when to buy or sell and constant investment review ... that's AUM and not a financial plan. And I'm not afraid to be blunt about this.

-

Investing is a long-term strategy
David Daley, founder of Daley Financial Planning in Corona, California

Financial planning often has a bigger impact on your overall wealth than small differences in investment returns, but managing investments is still an important piece of the puzzle. While some firms outsource their investment management, adding extra costs, we manage everything in-house to keep expenses down. Every extra cost reduces your overall returns, so we work to minimize that drag.

We are armed with modern tools to assist in things such as rebalancing and tax efficiency, and the belief that we do not need to outsmart the market. Investing is

a long-term strategy, and we tend to avoid too much speculation. The biggest changes to your portfolio should come from changes in your life, not from market noise. A key part of investment management is knowing when to adjust — and just as importantly, when not to.

-

Break down investment management into categories
Ronald E. Lang, principal and chief investment officer at Atlas Wealth Management in Phoenix

You can essentially break down investment management into three categories. Of course, there are subtle levels of each and risk assessment is a major component, but most people make investment management too complex.

Essentially the first category is growth. This is meant for a 10-year or longer horizon line to retirement and to ride out the volatility of the market. The next category is conservative. This is meant for two types of clientele: one that is fearful of the markets and OK with small returns over time so they can sleep at night. The second is meant for pre-retirees or early retirees who need income from their portfolios and don't want to subject their portfolios to the volatility of the market. The last category is a blended approach of growth and conservative. This could be for pre-retirees who still want to grow their portfolio but want a stable percentage of it to not be at true risk of the market. These categories can be different across accounts and account types, but this is the easiest way to explain and provide direction to clientele.

-

Needing growth but not being emotionally able to handle periodic market losses
Timothy L. Smith, founder and CEO of Aurora Private Wealth in Dover, New Jersey

Most of my clients and prospects are people who are near or in retirement. Financial planning projections often indicate that they need some degree of growth of their investments, not just income, to be financially independent through life expectancy. The challenge for many of them is that their risk tolerance often does not allow for full market risk on their funds that are growth-oriented.

It's the classic challenge of needing growth but not being emotionally able to handle periodic market losses that come with growth investing. As a result, part of my investment strategies includes the use of structured notes, puts and calls to transfer market risk from the client to third parties. In turn, the client accepts default risk from major banks, which we attempt to mitigate by diversifying the banks involved.

-

Investment management is the engine
Noah Damsky, chartered financial analyst and founder of Marina Wealth Advisors in Los Angeles

Investment management is the engine that fuels us on the journey of our financial plan.

To guide the journey, it's important to figure out how soon we need to start, the right route to take and how quickly we have to travel so we arrive at the necessary time.

The investments can include stocks, bonds or alternative investments such as private equity. Each journey is unique to that client and how we arrive is always a little different. The composition of the investments will change as we travel along the journey.